

Encina Financing Joint Powers Authority

Financial and Compliance Report
Year Ended June 30, 2011

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Board of Directors
Encina Financing Joint Powers Authority
Carlsbad, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of the Encina Financing Joint Powers Authority (Authority), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2011, and the respective changes in financial position of the Authority for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented *Management's Discussion and Analysis* that the accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate, operating, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Combining Balance Sheet – Governmental Fund and Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Fund, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion is fairly stated in all material respects in relation to the financial statements taken as a whole.

Board of Directors
Encina Financing Joint Powers Authority
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In accordance with *Government Auditing Standards*, we have also issued a report dated November 11, 2011 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayor Hoffman Melton P.L.

Irvine, California
November 11, 2011

Financial Statements

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Encina Financing Joint Powers Authority

Statement of Net Assets and Governmental Fund Balance Sheet
June 30, 2011

Assets	Governmental Fund	Adjustments (See Note 2)		Statement of Net Assets
Current Assets, interest receivable	\$ 21,300	\$ 71,857	E	\$ 93,157
Noncurrent Assets				
Restricted cash and investments	953,706	-		953,706
Installment sale receivable	2,411,294	-		2,411,294
	3,365,000	-		3,365,000
Total assets	\$ 3,386,300	\$ 71,857		\$ 3,458,157
Liabilities				
Current Liabilities				
Accrued interest	\$ -	\$ 71,857	B	\$ 71,857
Current portion of revenue bonds payable, net of deferred charges of \$46,165	-	733,835	A	733,835
Deferred revenue	2,411,294	(2,411,294)	C	-
	2,411,294	(1,605,602)		805,692
Noncurrent Liabilities, revenue bonds payable, less current portion and net of deferred charges of \$109,292	-	2,475,708	A	2,475,708
Total liabilities	\$ 2,411,294	\$ 870,106		\$ 3,281,400
Fund Balance/Net Assets				
Restricted for Debt Service	\$ 975,006	\$ (975,006)	D	\$ -
Total liabilities and fund balance	\$ 3,386,300			
Net Assets, unrestricted		176,757		176,757
Total net assets		\$ 176,757		\$ 176,757

The notes to the financial statements are an integral part of this statement.

Encina Financing Joint Powers Authority

**Statement of Activities and Governmental Fund Statement of Revenues,
Expenditures and Changes in Fund Balances
Year Ended June 30, 2011**

	Governmental Fund	Adjustments (See Note 2)		Statement of Activities
Expenditures/Expenses, debt service:				
Principal	\$ 3,535,000	\$ (3,535,000)	C	\$ -
Interest on long-term debt	263,041	146,056	A	409,097
Total expenditures/expenses	3,798,041	(3,388,944)		409,097
Program Revenues:				
Installment sale	3,076,443	(2,903,470)	C	172,973
Investment earnings	54,133	(54,133)	B	-
Total revenues	3,130,576	(2,957,603)		172,973
(Deficiency) of revenues (under) expenditures and change in fund balance	(667,465)	667,465		-
Change in net assets		(236,124)		(236,124)
Fund Balance/net assets at beginning of year, as restated	1,642,471	(1,229,590)		412,881
Fund Balance/net assets at end of year	\$ 975,006	\$ (798,249)		\$ 176,757

The notes to the financial statements are an integral part of this statement.

Encina Financing Joint Powers Authority

Notes to Financial Statements

Year Ended June 30, 2011

Note 1. Summary of Significant Accounting Policies

The Encina Financing Joint Powers Authority (the Authority) was created on February 1, 1989 by the Buena Sanitation District, the City of Carlsbad (the City), the Leucadia County Water District (LCWD) and the City of Vista. The purpose of the Authority is to issue revenue bonds in order to acquire additional capacity for the Encina Water Pollution Control Facility (Facility) and to finance any other authorized costs. The Authority is governed by a Board of Directors which consists of one director appointed by each member. Action can be taken at any meeting of the Board by the vote of any three directors. The Authority is not subject to federal or state income taxes. From time to time, the Authority will issue debt on behalf of those members wishing to participate in the financing.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a summary of the more significant policies:

Measurement focus, basis of accounting and financial statement presentation: The Government-wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Principal payments on long-term debt are recorded as a reduction of the liability.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Principal and interest on long-term debt are recorded as fund expenditures when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Amounts reported as program revenues include installment sale payments and interest earned on investments.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying note disclosures. Accordingly, actual results could differ from those estimates.

Budgets: The Authority does not adopt a combined annual budget; therefore, no budgetary comparisons are presented.

Cash and investments: Investments are reported in the accompanying balance sheet at fair value.

Changes in fair value that occur during a fiscal year are recognized as interest on investments reported for that fiscal year. Interest on investments includes interest earnings, and any gains or losses realized upon the liquidation, maturity or sale of investments.

Long-term obligations: In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies, Continued

In the Fund Financial Statements, governmental fund types recognize bond premiums, discounts and issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred revenue: Deferred revenue represents installment sale receivables that are not available to finance expenditures of the current period.

Fund equity: The restricted portion of the fund balances represents those amounts which have been legally identified for the specific purpose or amounts which are not available to liquidate current liabilities.

Use of restricted/unrestricted net assets: When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Authority's policy is to apply restricted net assets first.

Note 2. Adjustments

The following adjustments were made in the conversion of the Governmental Fund Balance Sheet to the Statement of Net Assets:

- A To record revenue bond payable, less deferred charges not recognized in the governmental funds until amounts are due and payable.
- B To record accrued interest on the revenue bond payable as of June 30, 2011, not recorded in the governmental funds as it is recognized as an expenditure when due.
- C To recognize deferred revenue as revenue since the sale was complete in September 1997; therefore, no further obligation exists.
- D To reclassify fund balance as net assets.
- E To record interest receivable on the installment sale receivable, which is not accrued in the governmental funds until amounts are due and received.

The following adjustments were made in the conversion of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities:

- A Interest expense in the Statement of Activities differs because additional accrued interest was calculated for the bond and a reversal of prior year's accrued interest was made, as well as the amortization of the bond premiums, discounts and issuance costs.
- B Interest income in the Statement of Activities differs because it is not considered a current resource in the governmental funds until received.

Encina Financing Joint Powers Authority

Notes to Financial Statements

Note 2. Adjustments, Continued

- C Principal payments in the Statement of Activities (on long-term debt and installment sale receivables) differ because the payment/repayment of principal consumes/provides current financial resources for governmental funds; however, the payment/repayment does not have any effect on net assets in the Statement of Activities.

Note 3. Restricted Cash and Investments

Authority for investments: The Trust Agreement by and among State Street Bank and Trust Company of California, as trustee, and the Authority, dated February 1, 1997, authorizes the trustee to invest in U.S. Treasury Securities; U.S. Agency Securities; interest-bearing demand or time deposits; money market funds rated AAAM, AAAM-G or better by Standard & Poor's Corporation; commercial paper rated A-1+ by Standard and Poor's Corporation and P-1 by Moody's Investors Service, with original maturities of not more than 270 days; bankers acceptances rated A-1 or A-1+ by Standard & Poor's Corporation and P-1 by Moody's Investors Service, with maturities of not more than 180 days; certain municipal obligations, as defined in the Trust Agreement; and investment agreements approved by AMBAC Indemnity Corporation with notice to Standard and Poor's. During the 2004 Fiscal Year, the Bank of New York assumed the role of successor trustee for the Authority bonds, and the agreement with U.S. Bank (formerly State Street Bank and Trust Company) was terminated. The responsibilities of the new trustee were identical to those of the prior trustee.

Restricted cash and investments are stated at fair value. All restricted cash and investments of the Authority are held by the trustee.

At June 30, 2011, the Authority's restricted cash and investments consisted of a guaranteed investment contract in the amount of \$953,706 which is not subject to custodial credit risk categorization and which is stated at cost because they are not transferable and they have terms that are not affected by changes in interest rates. The guaranteed investment contract matures on August 1, 2014.

Note 4. Installment Sale Receivable

Under the terms of an "amended and restated installment purchase agreement related to Encina Wastewater Pollution Control Facility Expansion" between the Authority, as seller of additional capacity at the wastewater facility, and the City and LCWD, as purchasers of such additional capacity at the facility, dated February 1997, the City and LCWD agreed to purchase certain wastewater/sewage treatment capacity in the facility from the Authority for the purchasers' consideration of payment of installments of principal and interest on the unpaid price which equaled the amounts owed under the revenue bonds (see Note 5).

Interest payments under the installment sale are due every February 1 and August 1, and the payments are to be made from the net revenues of the City's and LCWD's Enterprise fund (wastewater revenue). For financial reporting purposes, the amounts due from the City and LCWD under the agreement are reflected on the Authority's Statement of Net Assets as installment sale receivable. The amended agreement will terminate in August 2014, unless terminated earlier upon payment in full of the installment payments or default. In August 2010, LCWD made a payment in full for all outstanding installments at that time.

Encina Financing Joint Powers Authority

Notes to Financial Statements

Note 5. Wastewater Revenue Bonds

The following is a summary of changes in the principal balance of the revenue bond payable for the year ended June 30, 2011:

	Principal Balance at June 30, 2010	Additions	Reductions	Principal Balance at June 30, 2011	Due Within One Year
Revenue bond payable	\$ 6,900,000	\$ -	\$ 3,535,000	\$ 3,365,000	\$ 780,000
Less deferred charges				155,457	46,165
				<u>\$ 3,209,543</u>	<u>\$ 733,835</u>

In February 1997, the Authority issued Wastewater Revenue Refunding Bonds, Series A, to refund the remaining balance of its outstanding 1989 Revenue Bonds. The 1997 Refunding Bonds bear interest at 5.125%, payable every February 1 and August 1 of each year and maturing on August 1 of each year through 2014. In addition, under the debt agreements, the Authority must maintain reserve funds equal to the lesser of the maximum annual debt service on the bonds or 10% of the original principal amount of the bonds, and the debt agreement is secured by the net revenue of the City's and LCWD's wastewater system and the Installment Purchase Agreement.

Covenants within the Installment Purchase Agreement require the members to, among other things, (1) maintain insurance on the facility and (2) establish wastewater rates which are sufficient to pay the operating costs and debt service on the bonds, and, which will result in net revenues equal to at least 125% of the annual installment payments due.

Debt service requirements to maturity for the bonds are as follows:

Years Ending June 30,	Principal	Interest	Total
2012	\$ 780,000	\$ 172,456	\$ 952,456
2013	820,000	132,481	952,481
2014	860,000	90,456	950,456
2015	905,000	46,381	951,381
	<u>\$ 3,365,000</u>	<u>\$ 441,774</u>	<u>\$ 3,806,774</u>

Note 6. Fund Balance /Net Assets

The restriction for debt service represents resources legally restricted to the payment of the revenue bond principal and interest maturing in future years.

Note 7. Interfund Transfers

Transfers are used to move interest earned in the reserve funds to the lease payment funds for the required payments of principal and interest on the revenue bonds.

Encina Financing Joint Powers Authority

Notes to Financial Statements

Note 8. Prior Period Adjustment

Net assets in the Statement of Activities were restated to reflect a reduction in installment sales receivable by the restricted cash and investments amount, since the restricted cash and investments will be used to make final payments on the bonds, thereby reducing the future amounts to be received.

	Entity Wide Statements
	Statement of Activities
Net assets at 6/30/2010	\$ 2,019,471
Reduction to net assets	(1,606,590)
Total net assets at July 1, 2010, as restated	<u>\$ 412,881</u>

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Supplementary Information

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Encina Financing Joint Powers Authority

Combining Balance Sheet—Governmental Fund
June 30, 2011

Assets	City of Carlsbad		Leucadia County Water District		Total
	Debt Payment	Reserve	Debt Payment	Reserve	
Interest Receivable	\$ -	\$ 21,300	\$ -	\$ -	\$ 21,300
Restricted Cash and Investments	-	953,706	-	-	953,706
Installment Sale Receivable	2,411,294	-	-	-	2,411,294
Total assets	\$ 2,411,294	\$ 975,006	\$ -	\$ -	\$ 3,386,300
Liabilities and Fund Balances					
Liabilities, deferred revenue	\$ 2,411,294	\$ -	\$ -	\$ -	\$ 2,411,294
Fund Balances, restricted for debt service	-	975,006	-	-	975,006
Total liabilities and fund balances	\$ 2,411,294	\$ 975,006	\$ -	\$ -	\$ 3,386,300

Encina Financing Joint Powers Authority

Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Fund
Year Ended June 30, 2011

	City of Carlsbad		Leucadia County Water District		Total
	Debt Payment	Reserve	Debt Payment	Reserve	
Revenues:					
Installment sale	\$ 880,300	\$ -	\$ 2,196,143	\$ -	\$ 3,076,443
Interest on investments	-	51,119	-	3,014	54,133
Total revenues	880,300	51,119	2,196,143	3,014	3,130,576
Expenditures, Debt Service:					
Principal	740,000	-	2,795,000	-	3,535,000
Interest	191,419	-	71,622	-	263,041
Total expenditures	931,419	-	2,866,622	-	3,798,041
Excess (deficiency) of revenues over (under) expenditures	(51,119)	51,119	(670,479)	3,014	(667,465)
Other Financing Sources (Uses):					
Transfers in	51,119	-	670,479	-	721,598
Transfers out	-	(51,119)	-	(670,479)	(721,598)
Total other financing sources (uses)	51,119	(51,119)	670,479	(670,479)	-
Net change in fund balances	-	-	-	(667,465)	(667,465)
Fund Balance at beginning of year	-	975,006	-	667,465	1,642,471
Fund Balance at end of year	\$ -	\$ 975,006	\$ -	\$ -	\$ 975,006



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Board of Directors
Encina Financing Joint Powers Authority
Carlsbad, California

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Encina Financing Joint Powers Authority (Authority) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all the deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. The matter described herein conforms to that definition.

Accounting for Installment Sale Receivables

In past years the Authority issued Wastewater Revenue Bonds that are to be repaid with payments received under installment sales agreements. It was the practice of the Authority to record an installment sale receivable equal to the outstanding balance of the bonds. Since the Authority was holding certain bond reserves, which is restricted for payment on the outstanding bonds, the amount recorded as an installment sale receivable should have been net of the amount of bond reserve cash held by the Authority. The Authority has corrected this previous accounting by recording a prior period adjustment in the financial statements for the year ended June 30, 2011.

This report is intended solely for the information and use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffman McCann P.L.

Irvine, California
November 11, 2011